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DEPARTMENT OF AGRICULTURE

Food and Nutrition Service

[FNS-2015-0013]

Request for Information: SNAP and WIC Seeking Input Regarding Procurement and Implementation of Electronic Benefit Transfer (EBT) Services; Extension of Comment Period

AGENCY: Food and Nutrition Service (FNS), USDA.

ACTION: Notice; Extension of Comment Period.

SUMMARY: The Food and Nutrition Service (FNS) is interested in identifying ways to stimulate increased competition in the Electronic Benefit Transfer (EBT) marketplace and identify procurement or systems features that are barriers to new entrants. FNS is also seeking suggestions which will improve procurement of the delivery of EBT transaction processing services through modifications to, or replacement of, the existing business model. The procurement and implementation of EBT systems by State agencies administering the Supplemental Nutrition Assistance Program (SNAP) and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) needs to be sustainable for all parties involved.

The landscape of EBT is in a heightened state of change, due in part to the recent decision by one of three primary companies providing EBT transaction processing services for SNAP and WIC to no longer solicit or accept any new prepaid card business, including for SNAP and WIC EBT services. In addition, there are numerous EBT projects moving toward the October 1, 2020, statutorily-mandated deadline for WIC Program implementation.

This Request for Information (RFI) seeks to obtain input from EBT stakeholders and other financial payment industry members and interested parties, regarding options and alternatives available to improve the procurement and current operational aspects of EBT. In this document, FNS has posed various questions to prompt stakeholder responses. We intend to consider and follow up on the alternatives and suggestions that appear to be most viable from both a technical and a cost/benefit standpoint.

Interested stakeholders are invited to respond to any or all of the questions that follow, and to identify issues which may not be listed.

FNS is extending the comment period to provide additional time for interested parties to review this Request for Information.

DATES: The comment period for the notice that was published on June 23, 2015 (80 FR 35932) has been extended from August 24, 2015 to October 24, 2015. To be assured of consideration, comments must be received on or before October 24, 2015.

ADDRESSES: Comments may be submitted through the Federal eRulemaking Portal at www.regulations.gov. Follow the online instructions for submitting comments electronically.

Comments can also be mailed or delivered to: Andrea Gold, Director, Retailer Policy and

Management Division, Supplemental Nutrition Assistance Program, Food and Nutrition Service, U.S. Department of Agriculture, 3101 Park Center Drive, Room 424, Alexandria, Virginia, 22302.

All comments submitted in response to this notice will be included in the record and will be made available to the public at www.regulations.gov. Please be advised that the substance of the comments and the identity of the individuals or entities commenting will be subject to public disclosure.

FOR FURTHER INFORMATION CONTACT: Andrea Gold, Director, Retailer Policy and Management Division, Supplemental Nutrition Assistance Program, (703)305-2434, or via email at andrea.gold@fns.usda.gov.

SUPPLEMENTARY INFORMATION

Background

All SNAP State agencies and some WIC State agencies conduct EBT using magnetic stripe cards similar to debit or credit cards. Almost all EBT systems today are integrated such that all of the service requirements are provided within a single system to the relevant State agencies, often referred to as a turnkey system. Over the years, some States have obtained SNAP EBT services by contracting for individual EBT service components to one or more service providers (such as authorization platform, retailer management, transaction switching, client help desk services, and card production). A few State agencies have performed certain EBT services themselves, to control costs or meet the needs of State operations. These State-operated services may include

such functions as transaction authorization, retailer training and management, EBT card distribution, and management and customer service.

In the WIC Program, several of the State agencies use smart card or chip card systems, sometimes referred to as off-line systems, while others have chosen an on-line system using a magnetic stripe reader. The trend in WIC, for State agencies choosing both mag-stripe and smart card solutions, is toward contracted EBT services via a turnkey processor.

Contractors compete for State EBT business in a comparatively small marketplace. FNS has long encouraged healthy competition in this marketplace because the Agency believes it helps to control costs, ensures a level playing field for businesses who are interested in supporting EBT delivery processes, and encourages innovation. Two of the biggest concerns for FNS and State agencies with the limited competition within the EBT market, are the increased risk for sustainability of the industry over time, and the impact limited competition could have on pricing.

Up until most recently, in the SNAP EBT environment, there have been three dominant primary EBT contractors with State agency EBT contracts. In the WIC EBT environment, these same three on-line EBT SNAP contractors have also provided EBT on-line services for WIC. There are also two other off-line EBT contractors for WIC.

In January 2014, one of the primary contractors announced that the firm would no longer solicit or accept any new prepaid card business, which includes their EBT services. The firm is in the process of fulfilling its existing contracts but is not pursuing any further business in this area. As a result, only two of those three active primary EBT contractors remain in the market. There has

been a new entrant to the SNAP market, a company that has been active in the WIC market; however, at this time, it is unclear whether any other firms will choose to enter this market.

State agencies have acquired EBT service through one of two major approaches: procurements dedicated to a single State agency, and multi-state procurements. The latter approach leverages pricing through economies of scale and standardizes requirements and contract provisions in a way that can reduce the burden on contractors of responding to separate contract solicitations by many State agencies. Typical contracts have a base period such as 5 years with several optional extension years, but there are situations where State procurement rules dictate a shorter timeframe with limited renewals. Due to the burden to develop re-procurements and manage the potential transition to a new contractor when an incumbent does not win award, it is not unusual to see a State agency choose to exercise the optional years, resulting in contract lengths of 7-10 years. It is safe to say that FNS and State agencies are interested in the best value and service for EBT projects regardless of the size of a specific State agency.

The Agricultural Act of 2014, Pub. L. 113-79 (the Act) has also brought important changes to the SNAP EBT landscape that impacts States and SNAP EBT contractors looking forward.

That legislation removed the requirement for States and their contractors to provide no cost point-of-sale (POS) devices to all authorized SNAP retailers who were not already using a commercial payment provider. The Act also changed manual voucher processing used when retailer sales do not warrant the cost to receive a POS device from the government and for back up during system outages and disasters.

On the WIC side, while there is no new legislation at play, most of the 90 WIC State agencies are beginning to convert to an EBT delivery model to meet the October 1, 2020, deadline

mandated by the Healthy Hunger-Free Kids Act of 2010, Pub. L. 111-296. These State agencies are acquiring services from the on-line and off-line contractors.

In sum, EBT services have developed a pricing model that has evolved since the early projects were initiated in the 1980s. Currently, contractors will bid to provide all the services, including cards, benefit account management, purchase authorization, customer service, retailer equipage and settlement to food retailers for a single cost for each household or case served in a month. Sometimes retailer equipage, pay-phone surcharges for toll-free calls and other fees have been separated from the case-month price. This pricing model allows for fluctuations in caseload related to economic changes or other growth factors. To the degree other pricing models exist, they have not taken root within either SNAP or WIC to date. Pricing can be, and often is, set up in tiers to reduce the case-month fee when certain caseload thresholds are reached either due to increases (or decreases) in household participation or if multiple State agencies have contracted together for economies of scale with the same requirements and contract standards.

The major functional components of on-line EBT for SNAP and WIC are outlined in Appendix A, and off-line smart card WIC EBT is described in Appendix B.

Request for Information

This RFI seeks to obtain input from EBT stakeholders, other financial payments industry members and other interested parties regarding options and alternatives available to improve the procurement and operational aspects of EBT. FNS has posed various questions below to prompt stakeholder responses, and, before those, has also noted a few primary concerns and key objectives for this effort.

Primary Concerns

- Less available competition and potential that smaller State agencies may not receive affordable proposals, or even any proposals, in response to State agency solicitations.
- An increase in procurement activity and system conversions by SNAP State agencies as those using the services of the departing company migrate to the remaining processors.
- Significant increase in procurement activity and system implementation by WIC State agencies leading up to the October 1, 2020, deadline for WIC State agencies to convert to an EBT delivery system.
- Management of risks associated with greater activity in a shorter period of time.

Main Objectives

FNS is inviting stakeholder input on how the opportunities and risks associated with these changes can best be recognized and managed. There are two main objectives:

1. Increased competition for EBT services, including that which can possibly be achieved through changes or alternatives to the current business model.
2. More stability and sustainability for this market, including that which can possibly be achieved through alternative pricing models and contract terms.

Questions

The Agency will consider all comments, and plans to follow up on alternatives and suggestions that appear to be most viable from both a technical and a cost/benefit standpoint. Responses will

help inform any future actions or guidance issued by the Agency, including guidance to States on issuing EBT Requests for Proposals (RFPs).

Interested stakeholders are invited to respond to any or all of the following questions, and to identify other issues which may not be listed. Responses which clearly reference the pertinent question below would facilitate FNS' review of the stakeholder feedback.

Procurement

1. Do State agency procurements provide sufficient information about the operational characteristics of their EBT projects for new entrants to the EBT market? If not, are there alternatives for potential vendors to obtain the information needed?
2. How do State Agency requirements, (such as call center response standards, transaction processing requirements, card issuance timeframes and adjustment policies), compare to commercial practices? Would adjusting some of these requirements to closely resemble the commercial world increase the interest of potential new vendors, or impact contract costs or willingness of current vendors to bid? If so, what requirements or practices should be considered?
3. Are the amounts for liquidated damages and penalty clauses currently required by State agencies reasonable? If not, what would be more reasonable amounts or ways for State agencies to safeguard against such problems as project delays, unscheduled system downtime, and below-standard processing times, etc.?
4. Can more economies of scale be realized without increasing complexity through any of the following:

- a. Multi-state shared services for commercial call center services, card production and delivery, training and other services?
 - b. The inclusion of more agencies/programs?
- 5. Are there requirements for vendor experience that are necessary to establish minimum qualifications to bid to provide EBT services? Are there requirements you have seen that should not be used because you believe that they unnecessarily limit competition?
- 6. Would any vendors be interested in providing select service components (i.e. call centers, transaction processing, training, etc.) if there were an option to offer proposals for one or some rather than all of the service components? What pricing model(s) would work best for separate services when not bundled into the cost per case month pricing (CPCM)?
- 7. What alternative procurement models might State Agencies consider to ensure they receive viable competitive bids?
- 8. Should State agencies pursue coalition procurements with the benefits they bring, such as economies of scale, or does it tend to limit competition or discourage new entrants into the marketplace?

Pricing

- 9. Does the impact of the EBT vendor assuming development and implementation costs before they begin processing transactions pose a major barrier to entering the market?

10. Are there ways to separate EBT system development/startup costs from operational costs to reduce risk for new entrants when bidding on a project? If so, what are they?¹
11. Are there other changes to the CPCM pricing model that would encourage potential vendors to enter the EBT market?
12. The tiered pricing model involves tiers within the CPCM pricing model, adjusted at smaller or larger intervals for different caseload levels. How can State consortia which want to procure together better realize economies of scale given their varying caseload sizes, and still benefit from a blended CPCM price based on their collective caseload volumes?
13. Are there pricing models other than the CPCM model that would be advantageous in reducing pricing risk to the vendor and still maintain sustainable prices for the State agencies? How can the disadvantages to State agencies in forecasting expenses be overcome, if costs are no longer tied to caseload levels?

Managing Risk

Several stakeholders have advised FNS that too many procurements occurring in close succession may increase the risk that smaller State Agencies may receive fewer or even no bids, as vendors will devote scarce resources to preparing proposals for the most potentially profitable customers. Similarly, if too many implementations or conversions are scheduled in close succession, it may mean that vendors will not have sufficient technical resources to assign their

¹ SNAP procurements involve acquiring an operational process with costs for start-up activities included in the monthly operational cost-per-case-month. WIC procurements are conversions from paper to electronic delivery with deliverables and milestones for start-up that may be priced separately.

top team to each one. Both of these situations represent risks which FNS would like to help State Agencies manage and mitigate.

14. Besides sharing known and estimated RFP release dates and conversion dates, what can FNS do to help State Agencies manage these risks and ensure smooth transitions?

Other Questions

15. Are there other areas or issues that we have not specifically asked for a response on which you would like to offer comment related to the two main objectives of this RFI?

Dated: August 6, 2015.

Audrey Rowe

Administrator

Food and Nutrition Service

Attached: Appendix A: EBT Functions for Online SNAP and WIC EBT

Appendix B: EBT Functions for Offline WIC EBT Cards (Smart Cards)

Appendix C: Web sites to RFP and other EBT information:

Appendix A

EBT Functions for On-line SNAP and WIC EBT

- 1) Account setup and benefit authorization – support for on-line accounts for SNAP or WIC households authorized to receive benefits;
- 2) Card issuance and participant training – provide cards, equipment (PIN pads, card readers and training materials);
- 3) Participant account maintenance – receive daily and monthly benefit updates from State agency systems, aging benefits and reporting;
- 4) Transaction processing – approval or denial of food purchases made at authorized SNAP and WIC retailers/vendors; WIC processing includes, but is not limited to, matching of food item UPC, price and quantity;
- 5) Customer service – 24x7 toll-free call support with help desk customer service representatives and Interactive Voice Response and web portal services inquiries related to purchase activities and balances from cardholders, merchants and State agency staff;
- 6) Retailer participation – support commercial third party switching services and installation and maintenance of payment terminals in smaller retail locations. Manual backup vouchers for authorizations during system interruptions or for low volume SNAP merchants;
- 7) EBT settlement – daily payment to authorized retailers for approved purchases; reconciliation via reports and data file exchanges, WIC also includes food item detail;
- 8) EBT reporting – administrative and batch data exchange for reporting card account activities by card number and retail location; daily financial settlement reporting and reconciliation; and,

- 9) Disaster Benefit Services (SNAP only) – providing card and benefit services for natural disasters.

Appendix B

EBT Functions for Offline WIC EBT (Smart Cards)

WIC off-line EBT processing relies on State agencies to load a smart card chip with WIC food balances that can be read in grocery store lanes. Card and Personal Identification Number (PIN) support is provided by the State agency using the clinic system that tracks and determines participant benefits. Purchases are authorized off-line in the grocery lane (without an on-line authorization) and a daily claim file is sent to the WIC EBT host for processing payment to the WIC vendors. A hot card file, reconciliation file and authorized product list (APL) (containing the list of approved Universal Product Codes (UPC) and price look-up (PLU) codes called the APL file) are provided to the WIC grocer via the EBT host (an FTP server).

- 1) EBT host processing – processing of daily WIC claim files containing WIC transaction purchases, editing for Not-to-Exceed price limits, and pick-up of hot card, APL and reconciliation files to authorized WIC retail vendors.
- 2) Retail vendor equipage & integrated support (State agency option)
- 3) Customer Service (State agency option) – toll-free call center support including customer service representatives, Interactive Voice Response (IVR) and/or web portal services for cardholder and retailer and State agency staff inquiries.
- 4) EBT Reporting -- administrative and batch data to support all processing and authorization activities.
- 5) Settlement and Reconciliation – similar to SNAP settlement but also includes food product information.

Appendix C

Web sites to RFP and other EBT information

SNAP EBT Status - <http://www.fns.usda.gov/ebt/general-electronic-benefit-transfer-ebt-information>

WIC EBT Status - <http://www.fns.usda.gov/wic/wic-ebt-activities>

WIC Technology Partners (Provides links to new and updated solicitations) -

<http://www.wictechnologypartners.com/solicitations/RFP-B2Z12017/index.php>

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